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Message Text

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PAGE 01 PORT A 00627 212238Z
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 IGA-02 /018 W
----------212253 124412 /70
R 211915Z FEB 77
FM AMEMBASSY PORT AU PRINCE
TO SECSTATE WASHDC 4117

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FOR ASSISTANT SECRETARY DESIGNATE TODMAN FROM AMBASSADOR

ARA-LA/CAR/AID FOR BEHOTEGUY

E.O. 11652: N/A
TAGS: EAID, ECON, HA
SUBJECT: DIFFICULTIES POSED BY SHIFT TO CAPITAL GRANTS FOR HAITI;
MISSION RECOMMENDATION FOR EXCEPTION TO JANUARY 17
AID DECISION

REF: (A) STATE 18855, (B) STATE 020598

1. AID ADMINISTRATOR'S JANUARY 17 DECISION THAT PROJECTS SCHEDULED FOR LOAN FUNDING IN FY 77 AND BEYOND WILL BE CAPITAL GRANTS (REF B) CREATES SEVERAL SERIOUS PROBLEMS FOR THE ORDERLY MANAGEMENT OF OUR ASSISTANCE EFFORT IN HAITI. IN PRINCIPLE, I WELCOME ANY DECISION DESIGNED TO IMPROVE TERMS OF AID FOR THIS RELATIVELY LEAST DEVELOPED COUNTRY (RLDC). BUT OUR EXPERIENCE SINCE 1973 SUGGESTS THAT AID CONCESSIONS ARE MOST EFFECTIVE WHEN THEY ARE CLEARLY LINKED TO PERFORMANCE AND NEGOTIATED IN STEP BY STEP PROCESS. THIS TACTIC ENCOURAGES GOH FINANCIAL AND ADMINISTRATIVE COMMITMENT TO EFFECTIVENESS OF PROJECTS AND HELPS TO BLOCK RESURGENCE OF "LET THE DONOR DO IT" ATTITUDE. WE HAVE HAD A LARGE MEASURE OF SUCCESS THROUGH THIS APPROACH, AND WE HAD PLANNED, IN RECOGNITION OF GOH EFFORTS AND RESPONSIVENESS, TO MAINTAIN AN APPROPRIATE LOAN/GRANT
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PAGE 02 PORT A 00627 212238Z

MIX. WE NOW PLAN TO WRITE PUBLIC HEALTH LOAN'S PP CALLING FOR ALL GRANT FINANCING ALTHOUGH THIS CREATES FOR US A CREDIBILITY PROBLEM WITH THE MINISTRY OF HEALTH.

2. NEVERTHELESS, I CONSIDER IT UNWISE TO DISPENSE WITH LOANS ENTIRELY AT THIS JUNCTURE, FOR LOANS HAVE TENDED TO CONCENTRATE THE HAITIAN MIND POWERFULLY ON SUCH FACTORS -- OFTEN SCANT IN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

GRANTS -- AS LONG-RANGE PRIORITIES, REVENUE-PRODUCING POTENTIAL, MEANS OF ASSURING COUNTERPART PAYMENTS, AND ARRANGEMENTS FOR PROJECT MAINTENANCE (TRADITIONALLY THE ACHILLES HEEL OF PROJECTS IN HAITI).

3. MOREOVER, I FEAR THAT A SUDDEN ABANDONMENT OF LOANS IN FAVOR OF AN ALL GRANT PROGRAM WOULD BE MISUNDERSTOOD HERE AND WOULD VITIATE IF NOT RETARD OUR EFFORTS (AND THOSE OF OTHER DONORS) TO STRENGTHEN THE TREND TOWARD A GREATER GOH COMMITMENT TO DEVELOPMENT. DESPITE SIGNIFICANT PROGRESS SINCE RETROGRADE DAYS OF DR. FRANCOIS DUVALIER, THIS GOVERNMENT IS STILL DIVIDED ALONG PERSONAL AND FACTIONAL LINES ON BASIC DEVELOPMENT ISSUES. SUCH A MAJOR CONCESSION ON OUR PART SHOULD BE CLEARLY PERCEIVED AS RESPONSIVE TO THE EFFORTS OF THE PROGRESSIVE AND PRINCIPLED FACTION, RATHER THAN AS A GRATUITOUS -- AND UNDESERVED -- BONUS TO THE OPPORTUNISTS GAMBLING ON FOREIGN LARGESSE.

4. I FEEL CERTAIN THAT SENATOR BROOKE, WHO AS YOU KNOW, REVISITED HAITI LAST WEEK TO UPDATE HIS 1974 REPORT, WOULD CONCUR IN FOREGOING. HIS SUPPORT HAS BEEN INSTRUMENTAL IN PRESERVING AND INCREASING OUR AID PROGRAM, AND THE HIGH DEGREE OF EXECUTIVE/LEGISLATIVE CONSULTATION AND COORDINATION ILLUSTRATED IN OUR HAITI PROGRAM WOULD BE JEOPARDIZED BY A SUDDEN, UNEXPLAINED DECISION OF THIS MAGNITUDE.

5. RECOMMENDATION: WHAT WE RECOMMEND, THEREFORE, IS THAT AN EXCEPTION TO THE JANUARY 17 DECISION BE MADE FOR HAITI (WE NOTE THAT JAMAICA AND TUNISIA HAVE ALREADY BEEN MADE EXCEPTIONS) THAT WOULD PROVIDE THIS MISSION WITH THE AUTHORITY TO:
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A) NEGOTIATE TERMS OF AID (LOAN/GRANT MIX) ON PROJECT SPECIFIC BASIS WITH A VIEW TO ENCOURAGING MAXIMUM DEGREE OF GOH FINANCIAL AND ADMINISTRATIVE RESPONSIBILITY FOR PROJECTS;
B) REVIEW PROPOSED LOAN/GRANT MIX FOR ROAD MAINTENANCE PROJECT TO DETERMINE WHETHER PROJECT EFFECTIVENESS CAN BE ASSURED WITH A HIGHER GRANT ELEMENT;
C) EXAMINE ALTERNATIVE FINANCING FOR DEVELOPMENT FINANCE CORPORATION (DFC) PROJECT. WE NOTE CONGRESSIONAL PRESENTATION DESCRIBES DFC AS GRANT TO GOH AND LOAN TO PRIVATE AGENCY. SINCE PRIVATE HAITIAN INVESTORS EXTREMELY RELUCTANT TO HAVE GOH INVOLVEMENT (FEARING CLASSIC KICKBACK PRESSURES) WE PROPOSE INSTEAD TWO STEP LOAN AND PAYMENT AGREEMENT WHEREBY AID LENDS TO DFC BUT ENTERS INTO SEPARATE PAYMENT AGREEMENT WITH GOH. THIS PROCEDURE WOULD AVOID UNDESIRABLE (AND PROBABLY LETHAL) CREDITOR-DEBTOR RELATIONSHIP BETWEEN DFC AND GOH. ALL RIGHTS OF LENDER, COVENANTS, AND COMMITMENTS FLOW TO AID, WHILE GOH RECEIVES INTEREST AND PRINCIPAL PAYMENTS WHICH IT AGREES TO USE FOR DEVELOPMENT. LOAN AGREEMENT IS SIGNED BY AID AND DFC, PAYMENTS TO GOH ARE BY AID INSTRUCTION TO

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

BORROWER, SEPARATE PAYMENT AGREEMENT CONCLUDED BETWEEN AID AND GOH WHEREBY GOH ACCEPTS PAYMENTS, REPORTS THEM TO AID, AND USES PROCEEDS AS DESCRIBED.

6. AID DIRECTOR BEHOTEGUY WILL BE CONSULTING IN DEPARTMENT THIS WEEK AND IS PREPARED TO HAVE THOROUGH DISCUSSION OF THIS ISSUE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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Executive Order: N/A
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Type: TE
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22 May 2009
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